STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
(COMPONENT UNIT OF THE CITY OF DULUTH)
DULUTH, MINNESOTA

FOR THE YEARS ENDED APRIL 30, 2009 AND 2008

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY (COMPONENT UNIT OF THE CITY OF DULUTH) DULUTH, MINNESOTA

For the Years Ended April 30, 2009 and 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

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Introductory Section

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

ORGANIZATION
APRIL 30, 2009

	Term Ending
Directors	
Lisa Augustine	June 30, 2011
Jane Gilbert-Howard	June 30, 2012
Alan Johnson	June 30, 2011
Will Munger	June 30, 2012
Nancy Nelson	June 30, 2012
Neale Roth	June 30, 2012
Todd Torvinen	June 30, 2011

Executive Director
Renee Mattson

Officers

Chair
Nancy Nelson

Vice Chair
Todd Torvinen

Secretary
Neale Roth

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

Board of Directors
Spirit Mountain Recreation Area Authority

We have audited the accompanying basic financial statements of Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, as of and for the years ended April 30, 2009 and 2008. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spirit Mountain Recreation Area Authority as of April 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplementary information in the table of contents is presented for additional analysis and is not a required part of the basic financial statements of Spirit Mountain Recreation Area Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2010, on our consideration of the Spirit Mountain Recreation Area Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 20, 2010

MANAGEMENT’S DISCUSSION AND ANALYSIS

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2009
(Unaudited)

This section presents management's analysis of the Authority's financial condition and activities for the fiscal year ended April 30, 2009. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets increased $107,263, or 3 percent, compared to fiscal year 2008. The increase was due mainly to total assets increasing $329,039, or 6 percent.

- Gross profit on sales increased $76,427, or 13 percent, compared to fiscal year 2008. The increase was due primarily to an increase in sales.

- The City of Duluth issued a $1.647 million Gross Revenue Recreational Facility Bond in 2003 to refinance existing Authority debt. The bond is not a general obligation of the City and is payable from the Authority gross revenues. The City pledged tourism taxes in the amount of $225,000 per year, effective January 1, 2004, as part of the gross revenues of the project. The tourism tax pledge by the City will allow the Authority to invest a minimum of $225,000 in capital improvements on an annual basis over the life of the bond.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, bond resolutions, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector.

The financial statements include a statement of net assets; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of the Authority on a full accrual historical cost basis. While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows present changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The financial statements were audited and adjusted, if material, during the independent external audit process.

SUMMARY OF ORGANIZATION AND BUSINESS

On May 18, 1973, the Minnesota State Legislature enacted the Laws, 1973, Chapter 327 (the "Act") creating the Spirit Mountain Recreation Area Authority. The mission of the Authority as defined in section one of the Act is as follows: The purpose of this Act is to facilitate the development of a land area with the following objectives: (1) the development of wide-range recreational facilities available to both local residents and tourists; (2) the aiding of the economy of northeastern Minnesota by encouraging private enterprise efforts in conjunction with the recreational facilities; and (3) the preservation of the environment in the area by a timely and intelligent plan of development. The Authority was created to have the power and duty to manage the property made up of the Area. The State Legislature itself conferred upon the Authority the power and responsibility for the operation and management of the Area. The Mayor of Duluth appoints seven community members to serve on the Board of Directors that oversees the Authority.

The main form of recreation provided to both local residents and visitors is skiing; alpine, nordic, and snowboarding. The Authority also hosts the world's largest Snocross race. Summertime activities include special events, mountain bike races, banquets, meetings and camping.

The Authority does not have taxing power. Operations are funded from customer revenues. Customer revenues, together with city tourism taxes, fund the acquisition and construction of capital assets.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

Condensed Statement of Net Assets

	FY 2009	FY 2008	Change from 2008 to 2009 Dollar	Change from 2008 to 2009 Percent (%)	FY 2007
Current and other assets	$ 779,426	$ 1,016,395	$ (236,969)	(23)	$ 967,613
Capital assets	5,314,097	4,748,089	566,008	12	4,774,525
Total Assets	$ 6,093,523	$ 5,764,484	$ 329,039	6	$ 5,742,138
Current liabilities	$ 771,869	$ 744,606	$ 27,263	4	$ 774,482
Long-term liabilities	1,132,892	938,379	194,513	21	1,270,692
Total Liabilities	$ 1,904,761	$ 1,682,985	$ 221,776	13	$ 2,045,174
Net Assets					
Invested	$ 3,848,174	$ 3,567,912	$ 280,262	8	$ 3,321,671
Restricted	340,014	518,134	(178,120)	(34)	320,820
Unrestricted	574	(4,547)	5,121	(113)	54,473
Total Net Assets	$ 4,188,762	$ 4,081,499	$ 107,263	3	$ 3,696,964

As can be seen from the table, net assets increased $107,263 to $4,188,762 in 2009, up from $4,081,499 in 2008.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets (Comparative Amounts)

	FY 2009	FY 2008	Change from 2008 to 2009 Dollar	Change from 2008 to 2009 Percent (%)	FY 2007
Operating revenues	$ 3,841,498	$ 3,918,859	$ (77,361)	(2)	$ 3,681,803
Nonoperating revenues	287,900	291,494	(3,594)	(1)	256,052
Total Revenues	$ 4,129,398	$ 4,210,353	$ (80,955)	(2)	$ 3,937,855
Operating expenses	$ 3,557,416	$ 3,352,224	$ 205,192	6	$ 3,498,646
Nonoperating expenses	55,221	61,850	(6,629)	(11)	72,668
Depreciation/amortization	409,498	411,744	(2,246)	(1)	414,902
Total Expenses	$ 4,022,135	$ 3,825,818	$ 196,317	5	$ 3,986,216
Changes in Net Assets	$ 107,263	$ 384,535	$ (277,272)	(72)	$ (48,361)
Beginning Net Assets	4,081,499	3,696,964	384,535	10	3,745,325
Ending Net Assets	$ 4,188,762	$ 4,081,499	$ 107,263	3	$ 3,696,964

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(2009 Budget and Actual)

	Actual	Budget	Budget to Actual Variance	Budget % Variance
Operating revenues	$ 3,841,498	$ 4,012,158	$ (170,660)	(4)
Nonoperating revenues	287,900	244,055	43,845	18
Total Revenues	$ 4,129,398	$ 4,256,213	$ (126,815)	(3)
Operating expenses	$ 3,557,416	$ 3,514,449	$ 42,967	1
Nonoperating expenses	55,221	63,429	(8,208)	(13)
Depreciation/amortization	409,498	489,600	(80,102)	(16)
Total Expenses	$ 4,022,135	$ 4,067,478	$ (45,343)	(1)
Changes in Net Assets	$ 107,263	$ 188,735	$ (81,472)	(43)
Beginning Net Assets	4,081,499	4,081,499	-	-
Ending Net Assets	$ 4,188,762	$ 4,270,234	$ (81,472)	(2)

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues decreased $77,361, or 2 percent, in 2009 compared to 2008. Nonoperating revenues decreased $3,594, or 1 percent, in 2009 compared to 2008.

Expenses

The Authority's total expenses increased 5 percent from 2008, while nonoperating expenses decreased 11 percent from 2008.

Budgetary Highlights

The Authority creates an annual operating budget, which includes proposed expenses and means of financing them. Once management and the Board of Directors approve the budget, it is presented to the Duluth City Council for final approval. The Authority's operating budget remains in effect the entire year and is not revised. Management and the Board of Directors are presented detailed monthly financial statements. However, they are not reported on nor shown in the financial statement section of this report.

Though operating revenues were deficient of budgeted projections, food and beverage sales exceeded budget by 12 percent due mostly to Snocross and a strong banquet season.

Total expenses decreased 1 percent compared to budget due primarily to a decrease in depreciation/amortization.

CAPITAL ASSETS

	FY 2009	FY 2008	Change Dollar	Change Percent (%)
Land	$ 2,466,253	$ 2,446,545	$ 19,708	1
Equipment	6,497,175	6,408,660	88,515	1
Plant equipment	758,072	297,901	460,171	154
Building and improvements	3,985,887	3,885,456	100,431	3
Furniture and fixtures	229,589	204,058	25,531	13
Other capital assets	399,325	368,413	30,912	8
Work in progress	-	189,130	(189,130)	(100)
Subtotal	$ 14,336,301	$ 13,800,163	$ 536,138	4
Less: accumulated depreciation	(9,022,204)	(9,052,074)	29,870	-
Net Property and Equipment	$ 5,314,097	$ 4,748,089	$ 566,008	12

By the end of fiscal year 2009, the Authority had invested $14.3 million in capital assets. The increase of $566,008 in net property and equipment is due primarily to the purchase of two new grooming tractors as well as a new fleet of rental equipment.

The Authority's ongoing capital plan improvements include: as part of the approved Spirit Mountain Master Plan, improvements are made with the long-term goals of the plan in mind. During 2009, these upgrades/improvements included replacement of chairs and restraint bars on the Big Air Chair, the addition of the Slopeside Saloon on the lower level of the Moosehead Chalet, the purchase of a used City of Duluth plow truck to replace a 25-year-old plow truck, and the replacement of windows in the Fireside Room that provide a better view and are energy efficient. The Siriusware Sales system was upgraded and has proven to be extremely beneficial in terms of user ease and better control. We continue to seek ways to streamline the operation and provide the best possible guest experience.

Debt Administration

	FY 2009	FY 2008	Change Dollar	Change Percent (%)
Gas lease	$ -	$ 26,154	$ (26,154)	(100)
Groomer lease	390,866	160,590	230,276	143
Lease/leaseback (revenue bonds)	810,726	993,432	(182,706)	(18)
Rental lease	264,331	-	264,331	100
Total Debt	$ 1,465,923	$ 1,180,176	$ 285,747	24

At the end of fiscal year 2009, the Authority's outstanding debt increased $285,747 to $1.47 million due to a new rental equipment lease as well as two new groomer leases.

ECONOMIC AND OTHER FACTORS

The Authority must consider many factors when setting the fiscal year 2010 budget. The recent economic downturn has directly and aggressively affected the ski industry, and Spirit Mountain is not immune from lessened consumer confidence and shrinking spending habits. We continue to seek opportunities to enhance our marketing efforts through partnerships and innovative marketing endeavors.

For the 2009/2010 season, we continued the special season pass rate for college students, as that proved popular and had a noticeable increase in the food and beverage outlets. We also introduced a season pass lay away program designed to make it easier for families to purchase season passes by paying in installments over the summer. We continue to partner with Giants Ridge Ski Area with a “Buy One Get One” lift ticket offer and have recently begun a partnership with Giants Ridge and Welch Village to promote a “Minnesota Three Peaks” lift ticket that provides a great value and encourages groups and families to visit all three resorts. This particular program has proven to be extremely popular and has had the additional benefit of good press within the ski industry.

In July 2010, Spirit Mountain will open the Timber Twister Alpine Coaster, a major undertaking and the first new attraction in Duluth in a decade. The coaster is a Master Plan item intended to move us closer to the goal of being a four season recreational venue and will provide much needed summer revenues. The coaster will operate year round and will enable us to provide year-round employment to more employees and avoid costly lay offs.

The banquet business continued to be a strong revenue producer in 2009, and in 2010, we will play host to a record number of weddings and a strong calendar of meetings, banquets, and events.

We look forward to a strong summer season and feel the economy will improve and allow for a successful 2010/2011 winter sports season.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the Authority’s finances and to demonstrate the Authority’s accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the Finance Department, Spirit Mountain Recreation Area Authority, 9500 Spirit Mountain Place, Duluth, Minnesota 55810.

BASIC FINANCIAL STATEMENTS

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A

COMPARATIVE STATEMENT OF NET ASSETS
APRIL 30, 2009 AND 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 148,331	$ 302,886
Accounts receivable	75,453	33,322
Inventory	90,168	65,207
Prepaid items	6,201	46,810
Restricted assets		
Cash and cash equivalents - restricted for capital improvements	264,665	351,609
Cash and cash equivalents - restricted for special projects	-	8,525
Cash and cash equivalents - restricted for unemployment claims	50,349	133,000
Total current assets	**$ 635,167**	**$ 941,359**
Noncurrent assets		
Cash and cash equivalents - restricted for workers' compensation claims	$ 25,000	$ 25,000
Planning and development costs - net of accumulated amortization	116,737	46,538
Debt issuance costs - net of accumulated amortization	2,522	3,498
Total noncurrent assets, other than capital	**$ 144,259**	**$ 75,036**
Capital assets	$ 14,336,301	$ 13,800,163
Less: allowance for depreciation	(9,022,204)	(9,052,074)
Total capital assets - net of accumulated depreciation	**$ 5,314,097**	**$ 4,748,089**
Total noncurrent assets	**$ 5,458,356**	**$ 4,823,125**
Total Assets	**$ 6,093,523**	**$ 5,764,484**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A
(Continued)

COMPARATIVE STATEMENT OF NET ASSETS
APRIL 30, 2009 AND 2008

	2009	2008
Liabilities		
Current liabilities		
Accounts payable	$ 66,340	$ 117,291
Due to City of Duluth	105,938	92,302
Due to other governments	7,004	6,497
Accrued salaries payable	53,548	26,355
Accrued vacation payable	64,496	64,788
Accrued interest payable	17,754	19,849
Leases payable	142,793	104,488
Revenue bonds payable	190,238	182,324
Deferred revenue	123,758	130,712
Total current liabilities	**$ 771,869**	**$ 744,606**
Noncurrent liabilities		
Due to City of Duluth	$ -	$ 45,015
Leases payable	512,404	82,256
Revenue bonds payable	620,488	811,108
Total noncurrent liabilities	**$ 1,132,892**	**$ 938,379**
Total Liabilities	**$ 1,904,761**	**$ 1,682,985**
Net Assets		
Invested in capital assets - net of related debt	$ 3,848,174	$ 3,567,912
Restricted for capital improvements	264,665	351,609
Restricted for workers' compensation claims	25,000	25,000
Restricted for special projects	-	8,525
Restricted for unemployment claims	50,349	133,000
Unrestricted	574	(4,547)
Total Net Assets	**$ 4,188,762**	**$ 4,081,499**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT B

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED APRIL 30, 2009 AND 2008

	2009	2008
Operating Revenues		
Sales	$ 1,036,662	$ 920,404
Less: cost of goods sold	(394,006)	(354,175)
Gross profit on sales	**$ 642,656**	**$ 566,229**
Charges for services	3,130,063	3,295,230
Miscellaneous	68,779	57,400
Total Operating Revenues	**$ 3,841,498**	**$ 3,918,859**
Operating Expenses		
Personal services	$ 2,024,941	$ 1,913,830
Supplies	230,562	263,397
Utilities	378,607	351,964
Other services and charges	923,306	823,033
Amortization	16,275	8,826
Depreciation	393,223	402,918
Total Operating Expenses	**$ 3,966,914**	**$ 3,763,968**
Operating Income (Loss)	**$ (125,416)**	**$ 154,891**
Nonoperating Revenues (Expenses)		
Earnings on investments	$ 6,585	$ 16,494
Tourism tax	225,000	275,000
Gain (loss) on sale or disposition of capital assets - net	56,315	-
Interest expense	(55,221)	(61,850)
Total Nonoperating Revenues (Expenses)	**$ 232,679**	**$ 229,644**
Change in Net Assets	**$ 107,263**	**$ 384,535**
Net Assets - May 1	**4,081,499**	**3,696,964**
Net Assets - April 30	**$ 4,188,762**	**$ 4,081,499**

The notes to the financial statements are an integral part of this statement.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT C

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED APRIL 30, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities		
Cash received from customers	$ 4,068,200	$ 4,186,299
Cash paid to suppliers	(1,928,221)	(1,824,816)
Cash paid to employees	(1,998,040)	(1,903,482)
Other cash received	68,779	57,400
Net cash provided by (used in) operating activities	**$ 210,718**	**$ 515,401**
Cash Flows from Capital and Related Financing Activities		
Capital lease payments	$ (126,545)	$ (66,620)
Acquisition and construction of capital assets	(423,433)	(376,482)
Net cash provided by (used in) capital and related financing activities	**$ (549,978)**	**$ (443,102)**
Cash Flows from Investing Activities		
Interest on investments	**$ 6,585**	**$ 16,494**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (332,675)**	**$ 88,793**
Cash and Cash Equivalents - May 1	**821,020**	**732,227**
Cash and Cash Equivalents - April 30	**$ 488,345**	**$ 821,020**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	**$ (125,416)**	**$ 154,891**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	393,223	402,918
Amortization	16,275	8,826
Change in assets and liabilities		
Decrease (increase) in receivables	(42,130)	24,596
Decrease (increase) in inventory	(24,961)	4,325
Decrease (increase) in prepaid items	40,609	2,264
Increase (decrease) in accounts payable	(66,829)	(92,029)
Increase (decrease) in salaries payable	27,193	11,404
Increase (decrease) in vacation payable	(292)	(1,056)
Increase (decrease) in deferred revenue	(6,954)	(738)
Net Cash Provided by (Used in) Operating Activities	**$ 210,718**	**$ 515,401**

The notes to the financial statements are an integral part of this statement.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT C
(Continued)

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED APRIL 30, 2009 AND 2008

	2009	2008
Noncash Investing, Capital, and Financing Activities		
Fiscal Year Ended April 30, 2009		
Capital assets acquired under lease purchase agreements	$ 753,389	$ -

The City of Duluth directly makes revenue bond payments for the Spirit Mountain Recreation Area Authority. The revenue bonds are secured by the Authority, but tourism tax is actually used to fund the bond payments. The Authority is to withhold $225,000 in revenue to use for capital improvements. A capital improvement budget is submitted and approved by the City.

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1. Summary of Significant Accounting Policies

Organization

Spirit Mountain Recreation Area Authority was created by Minn. Laws 1973, ch. 327, for the purpose of developing and operating wide-range recreational facilities in the Spirit Mountain area within and adjacent to the City of Duluth, Minnesota. The management of the Authority is vested in seven directors appointed by the Mayor of Duluth and approved by resolution of the City Council.

The accounting policies of Spirit Mountain Recreation Area Authority conform to generally accepted accounting principles.

A. Financial Reporting Entity

The Authority is a component unit of the City of Duluth reporting entity and, therefore, is included in the City's Comprehensive Annual Financial Report.

B. Fund Accounting

The Authority is accounted for as an enterprise fund. Enterprise funds account for operations financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The principal operating revenues of the Authority are charges to customers for sales and services for recreational activities offered within the Spirit Mountain area. All revenues not meeting this definition are reported as nonoperating revenues.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Authority uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, the Authority has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

D. Assets

For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

Inventories of supplies and merchandise for resale are priced at the lower of cost or market value on a first-in, first-out basis.

Development costs, consisting of engineering, feasibility study, and interest costs during construction, have been recorded at cost and are being amortized over 40 years.

Monies restricted for the payment of capital improvements, special projects, and workers' compensation claims are accounted for as restricted assets. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

Capital assets are stated at cost. Interest costs incurred during construction are not capitalized unless determined to be significant. Depreciation of capital assets is determined using the straight-line method. The estimated useful lives of the assets are:

Classification	Range
Buildings and structures	5 to 40 years
Equipment	3 to 40 years
Furniture and fixtures	5 to 20 years
Other fixed assets	2 to 40 years

1. Summary of Significant Accounting Policies (Continued)

E. Trade-Offs

The Authority issues ski lift passes, rentals, lessons, etc., in exchange for other non-monetary assets or services, such as advertising and other promotional services. The value of the lift passes, rentals, or lessons is credited to the appropriate revenue account and debited to the appropriate expense account.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes

A. Budget

The Authority adopts an annual budget which is approved by the Duluth City Council. A comparison of budget to actual for the years ended April 30, 2009 and 2008, follows:

	2009		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Sales	$ 972,050	$ 1,036,662	$ 64,612
Less: cost of goods sold	(371,319)	(394,006)	(22,687)
Gross profit on sales	$ 600,731	$ 642,656	$ 41,925
Charges for services	3,352,732	3,130,063	(222,669)
Miscellaneous	58,695	68,779	10,084
Total Operating Revenues	$ 4,012,158	$ 3,841,498	$ (170,660)

2. Detailed Notes

A. Budget (Continued)

	2009		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Expenses			
Personal services	$ 2,058,968	$ 2,024,941	$ 34,027
Supplies	250,652	230,562	20,090
Utilities	365,360	378,607	(13,247)
Other services and charges	839,469	923,305	(83,836)
Amortization	9,600	16,275	(6,675)
Depreciation	480,000	393,223	86,777
Total Operating Expenses	$ 4,004,049	$ 3,966,913	$ 37,136
Operating Income (Loss)	$ 8,109	$ (125,415)	$ (133,524)
Nonoperating Revenues (Expenses)			
Earnings on investments	$ 19,055	$ 6,585	$ (12,470)
City of Duluth hotel-motel, food, and beverage tax	225,000	225,000	-
Gain (loss) on disposal of assets	-	56,315	56,315
Interest expense	(63,429)	(55,221)	8,208
Total Nonoperating Revenues (Expenses)	$ 180,626	$ 232,679	$ 52,053
Change in Net Assets	$ 188,735	$ 107,264	$ (81,471)

	2008		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Sales	$ 835,470	$ 920,404	$ 84,934
Less: cost of goods sold	(305,429)	(354,175)	(48,746)
Gross profit on sales	$ 530,041	$ 566,229	$ 36,188
Charges for services	3,143,345	3,295,230	151,885
Miscellaneous	28,514	57,400	28,886
Total Operating Revenues	$ 3,701,900	$ 3,918,859	$ 216,959

2. Detailed Notes

A. Budget (Continued)

	2008		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Expenses			
Personal services	$ 1,923,960	$ 1,913,830	$ 10,130
Supplies	262,703	263,397	(694)
Utilities	366,588	351,964	14,624
Other services and charges	837,429	823,033	14,396
Amortization	6,000	8,826	(2,826)
Depreciation	408,000	402,918	5,082
Total Operating Expenses	$ 3,804,680	$ 3,763,968	$ 40,712
Operating Income (Loss)	$ (102,780)	$ 154,891	$ 257,671
Nonoperating Revenues (Expenses)			
Earnings on investments	$ 20,600	$ 16,494	$ (4,106)
City of Duluth hotel-motel, food, and beverage tax	225,000	275,000	50,000
Interest expense	(60,304)	(61,850)	(1,546)
Total Nonoperating Revenues (Expenses)	$ 185,296	$ 229,644	$ 44,348
Change in Net Assets	$ 82,516	$ 384,535	$ 302,019

B. Deposits

The Treasurer of the City of Duluth is designated by Minn. Laws 1973, ch. 327, as Treasurer of the Authority. Authority deposits are pooled with all other City deposits. The City Treasurer is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit cash and to invest in certificates of deposit in financial institutions designated by the Duluth City Council. Minnesota statutes require that all Authority deposits be covered by insurance, surety bond, or collateral.

2. Detailed Notes

B. Deposits (Continued)

The types of investments available to the City Treasurer are detailed in Minn. Stat. §§ 118A.04 and 118A.05. Investments are stated at fair value.

Additional disclosures required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the City of Duluth's Comprehensive Annual Financial Report. The Authority is a component unit of the City of Duluth.

Following is a summary of the Authority's cash:

	April 30	
	2009	2008
City Treasurer	$ 425,571	$ 232,422
Money market savings	-	579,943
Certificate of deposit	50,349	-
Petty cash and change funds	12,425	8,655
Total Cash and Cash Equivalents	$ 488,345	$ 821,020
Current assets		
Unrestricted	$ 148,331	$ 302,886
Restricted for capital improvements	264,665	351,609
Restricted for special projects	-	8,525
Restricted for unemployment claims	50,349	133,000
Noncurrent assets		
Restricted for workers' compensation claims	25,000	25,000
Total Cash and Cash Equivalents	$ 488,345	$ 821,020

2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended April 30, 2009 and 2008, follows:

	Balance May 1, 2008	Additions	Deductions	Reclassification	Balance April 30, 2009
Capital assets not depreciated					
Land and land improvements	$ 2,446,545	$ -	$ -	$ 19,708	$ 2,466,253
Construction in progress	189,130	423,432	-	(612,562)	-
Total capital assets not depreciated	$ 2,635,675	$ 423,432	$ -	$ (592,854)	$ 2,466,253
Capital assets depreciated					
Buildings and structures	$ 3,885,456	$ -	$ 5,023	$ 105,454	$ 3,985,887
Equipment	6,706,561	753,389	551,042	346,339	7,255,247
Furniture and fixtures	204,058	-	-	25,531	229,589
Other capital assets	368,413	-	-	30,912	399,325
Total capital assets depreciated	$ 11,164,488	$ 753,389	$ 556,065	$ 508,236	$ 11,870,048
Less: accumulated depreciation for					
Buildings and structures	$ 2,455,334	$ 162,054	$ 5,023	$ -	$ 2,612,365
Equipment	6,132,435	204,699	418,070	-	5,919,064
Furniture and fixtures	189,484	7,803	-	-	197,287
Other capital assets	274,821	18,667	-	-	293,488
Total accumulated depreciation	$ 9,052,074	$ 393,223	$ 423,093	$ -	$ 9,022,204
Total capital assets depreciated, net	$ 2,112,414	$ 360,166	$ 132,972	$ 508,236	$ 2,847,844
Capital Assets, Net	$ 4,748,089	$ 783,598	$ 132,972	$ (84,618)*	$ 5,314,097

*Reclassification balance is due to construction in progress item reclassified to planning and development.

2. Detailed Notes

C. Capital Assets (Continued)

	Balance May 1, 2007	Additions	Deductions	Reclassification	Balance April 30, 2008
Capital assets not depreciated					
Land and land improvements	$ 2,429,468	$ -	$ -	$ 17,077	$ 2,446,545
Construction in progress	122,272	376,482	-	(309,624)	189,130
Total capital assets not depreciated	$ 2,551,740	$ 376,482	$ -	$ (292,547)	$ 2,635,675
Capital assets depreciated					
Buildings and structures	$ 3,703,424	$ -	$ -	$ 182,032	$ 3,885,456
Equipment	6,605,176	-	-	101,385	6,706,561
Furniture and fixtures	194,928	-	-	9,130	204,058
Other capital assets	368,413	-	-	-	368,413
Total capital assets depreciated	$ 10,871,941	$ -	$ -	$ 292,547	$ 11,164,488
Less: accumulated depreciation for					
Buildings and structures	$ 2,288,741	$ 166,593	$ -	$ -	$ 2,455,334
Equipment	5,918,256	214,179	-	-	6,132,435
Furniture and fixtures	182,171	7,313	-	-	189,484
Other capital assets	259,988	14,833	-	-	274,821
Total accumulated depreciation	$ 8,649,156	$ 402,918	$ -	$ -	$ 9,052,074
Total capital assets depreciated, net	$ 2,222,785	$ (402,918)	$ -	$ 292,547	$ 2,112,414
Capital Assets, Net	$ 4,774,525	$ (26,436)	$ -	$ -	$ 4,748,089

D. Vacation, Sick Leave, and Compensatory Time

Full-time employees are granted from 10 to 20 days of vacation per year depending on their years of service. Maximum amounts of vacation time that can be accumulated depend on which union bargaining unit is representing the employee. Sick leave is accumulated at the rate of 30 days per year up to a maximum of 120 days for those employees covered by the Minnesota Arrowhead District Council 96.

Staff personnel are granted from one to four weeks of vacation per year depending on their years of service. Staff may carry forward no more than the amount that was earned in the year. Staff personnel are granted 30 days of sick leave per year.

2. Detailed Notes

D. Vacation, Sick Leave, and Compensatory Time (Continued)

Unpaid vacation pay earned as of April 30, 2009 and 2008, is $64,496 and $64,788, respectively, and is recognized as a liability in the financial statements.

Sick leave is recorded as an expense when paid. The contingent liability for unused sick leave is not recognized in the financial statements.

E. Due to City of Duluth

The amounts due to the City at April 30, 2009 and 2008, follow:

	2009	2008
General Fund - cost allocation plan	$ 55,656	$ 56,656
General Fund - sales tax	2,356	2,173
Self-Insurance Fund - insurance premiums	47,926	78,488
Total	$ 105,938	$ 137,317

In 2005, the City of Duluth and the Authority agreed on a repayment schedule. The total amount of $105,938 owed to the City is expected to be repaid within the next year.

F. Line of Credit

The City of Duluth extended the Authority a line of credit up to $350,000 to assist in the management of cash flow within the budget approved. Spirit Mountain Recreation Area Authority is allowed to draw upon the line of credit as needed beginning May 1 through October 31, and it needs to be repaid in full at least once per calendar year, by October 31 of that year. If repaid as agreed with the City Treasurer, no interest shall be charged. The Authority obtained $45,000 in fiscal year 2009 and repaid the money on October 31 as agreed.

2. Detailed Notes (Continued)

G. Long-Term Debt

The following is a summary of the long-term bonded debt transactions of the Authority.

	2009	2008
Bonds Payable - May 1	$ 993,432	$ 1,167,820
Payments	(182,706)	(174,388)
Bonds Payable - April 30	$ 810,726	$ 993,432
Amount Due Within One Year	$ 190,238	$ 182,324

Bonds payable comprise the following issue:

A $1,646,750 City of Duluth Gross Revenue Recreational Facility Bond dated March 28, 2003, with interest at 4.50 percent, is due in semi-annual installments on June 1 and December 1, through 2012. The bond is not a general obligation of the City and is payable from Authority gross revenues. The City has pledged tourism taxes in the amount of $225,000 per year as part of the gross revenues of the project. The Authority is required to deposit $75,000 on each November 15, December 15, and January 15 to the Repair and Replacement Account each year until 2012. The monies in this account can then be expended by the Authority for repairs and replacements made to the facilities. The bond was issued to refinance existing debt. The refinancing resulted in a $53,850 deferred loss, which is amortized over the life of the old debt.

The annual requirements to service the debt follow:

Fiscal Year Ended April 30	Principal	Interest
2010	$ 190,238	$ 34,379
2011	199,295	25,705
2012	208,365	16,636
2013	212,828	7,154
Total	$ 810,726	$ 83,874

2. Detailed Notes (Continued)

H. Capitalized Lease Obligations

Capitalized lease obligations consist of the following at April 30, 2009:

Type of Property		
Equipment	$	756,850
Less: accumulated amortization		(43,133)
Net Capital Lease Property	$	713,717

Minimum future lease payments follow:

Fiscal Year Ended April 30		Principal		Interest
2010	$	142,589	$	26,161
2011		148,654		20,096
2012		154,977		13,773
2013		161,568		7,182
2014		47,409		1,003
Total	$	655,197	$	68,215

Capitalized lease obligations at April 30, 2009, consist of the following leases:

A $317,261 lease purchase for ski rental equipment, dated June 26, 2008, due in periodic installments during the ski season through November 2013, with interest at 4.125 percent.	$	264,331
A $435,968 lease purchase for two groomers, dated November 5, 2008, due in periodic installments during the ski season through December 2013, with interest at 4.25 percent.		390,866
Total	$	655,197
Current portion	$	142,793
Long-term portion		512,404
Total	$	655,197

2. Detailed Notes (Continued)

   I. Operating Lease

   The Authority is obligated under an operating lease for office equipment. Lease expense for fiscal year 2009 is $4,252 and $4,252 for fiscal year 2008. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2009, are $4,608 due in fiscal year 2010.

   J. Mountain Villas Agreements

   In November 1979, the Authority entered into an agreement with the Mountain Villas Owner's Association, Inc., for the rental of property associated with 15 rental housing units sold by the Authority to the Association. The agreement provides for an annual base rental payment of $15,000 by the Association and features an annual inflation adjustment clause equal to the change in the consumer price index. This clause was not invoked by the Authority until 1989.

   In October 1989, the Authority entered into another agreement with the Mountain Villas Owner's Association, Inc., to manage the 15 rental housing units owned by the Association. The agreement provides payment to the Authority of an annual base management fee of $24,000 plus 10 percent of gross sales.

3. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. The Authority participates in the City of Duluth Internal Service Fund to insure against its obligation to provide benefits to employees pursuant to the Minnesota Workers' Compensation Act and to insure against general liability claims, except the liability claims arising by reason of selling, serving, or furnishing alcoholic beverages. The Authority purchases commercial insurance for all risks of loss not covered by the City's Internal Service Fund. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

3. Risk Management (Continued)

For claims arising from the Workers' Compensation Act, insured through the City of Duluth Self-Insurance Internal Service Fund, the Authority retains responsibility for attorney fees on contested claims. In addition, the Authority escrows $25,000 as a reserve fund to pay excess workers' compensation claims and costs that exceed the agreed-upon value of plan participation with the City. No liability has been recognized in the financial statements for excess workers' compensation claims and costs.

For general liability claims, insured through the City of Duluth Self-Insurance Internal Service Fund, the Authority retains responsibility for paying the first $50,000 of each loss resulting from each occurrence. The maximum coverage provided by the City was $300,000 per claimant; $1,000,000 per occurrence. The estimated liability of the Authority for general liability claims, where coverage is not provided by the City, is accrued if the Authority's attorney determines settlement is probable, based on a case-by-case evaluation. The attorney has indicated there are $65,000 in claims that may become losses to the Authority.

4. Defeased Debt

On March 31, 2003, the City of Duluth issued a Gross Revenue Recreational Facility Bond, with an interest rate of 4.5 percent, to refund the Authority's refinancing lease, having an interest rate of 4.85 percent. The $1,646,750 Gross Revenue Recreation Facility Bond was issued at par. The proceeds, together with Authority funds of $53,527, were used to refund a $1,646,750 refinancing lease with accrued interest of $53,527.

As a result of the refunding, the Authority increased its total debt service requirement by $312,471, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of $106,360.

As part of the agreement to issue the Gross Revenue Recreational Facility Bond, the City of Duluth pledged tourism taxes in the amount of $225,000 per year to pay principal and interest on the bond.

5. Pension Plans - Defined Benefit Plans

A. Plan Description

All full-time and certain part-time employees of Spirit Mountain Recreation Area Authority are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

5. Pension Plans - Defined Benefit Plans

A. Plan Description (Continued)

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

The Authority is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75

5. Pension Plans - Defined Benefit Plans

B. Funding Policy (Continued)

The Authority's contributions for the years ending April 30, 2009, 2008, and 2007, for the Public Employees Retirement Fund were:

	2009	2008	2007
Public Employees Retirement Fund	$ 71,847	$ 59,839	$ 56,823

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

SUPPLEMENTARY INFORMATION

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

Schedule 1

COMPARATIVE STATEMENT OF OPERATING REVENUES
YEARS ENDED APRIL 30, 2009 AND 2008

	2009	2008
Sales		
Food	$ 596,328	$ 531,819
Liquor	286,531	235,423
Ski shop	153,803	153,162
Less: cost of goods sold	(394,006)	(354,175)
Net sales	**$ 642,656**	**$ 566,229**
Charges for Services		
Season pass	$ 1,155,793	$ 1,248,298
Daily lift tickets	1,045,149	1,148,336
Ski school and snow sports	128,174	130,619
Ski rental	250,731	274,991
Snowboard rental	96,936	108,919
Locker rental	30,884	28,616
Nordic tickets and rental	14,704	20,057
Snocross	174,780	91,590
Campground	107,475	119,892
Mountain villa management fee	95,369	95,226
Marketing revenue	30,068	28,686
Total charges for services	**$ 3,130,063**	**$ 3,295,230**
Miscellaneous		
Other revenues	**$ 68,779**	**$ 57,400**
Total Operating Revenues	**$ 3,841,498**	**$ 3,918,859**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

Schedule 2

COMPARATIVE STATEMENT OF OPERATING EXPENSES
YEARS ENDED APRIL 30, 2009 AND 2008

	2009	2008
Department		
Food and beverage	$ 327,411	$ 268,374
Housekeeping	103,394	76,283
Rental	90,838	62,168
Ski shop	36,575	28,027
Campground	68,503	72,824
Parking and shuttle	23,241	18,496
Building and grounds	231,631	236,891
Snocross	167,167	116,762
Ski school and snow sports center	117,435	101,402
Outside mountain operations	1,174,500	1,101,715
Nordic	8,960	15,103
Ski patrol	9,354	9,905
Sales and marketing	465,423	443,500
Office administration	688,936	755,300
Mountain villas	44,048	45,474
Total departmental costs	**$ 3,557,416**	**$ 3,352,224**
Amortization	16,275	8,826
Depreciation	393,223	402,918
Total Operating Expenses	**$ 3,966,914**	**$ 3,763,968**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

Schedule 3

STATEMENT OF CAPITAL IMPROVEMENTS
YEAR ENDED APRIL 30, 2009

	Repair and Replacement Account Capital Improvements	Non-Repair and Replacement Account Capital Improvements	Total
Construction in Progress			
Roof replacement	$ 36,182	$ -	$ 36,182
Chalet exterior painting	19,544	-	19,544
Master plan consulting	-	11,415	11,415
Camp/XC voice over IP	2,063	-	2,063
Chair lift painting	26,245	-	26,245
Snowguns 2008	25,251	-	25,251
2007 Honda atv	5,732	16,475	22,207
Padded covers for electric pedestal	-	10,362	10,362
2008 electrical repair	2,954	-	2,954
Great Plains upgrade	45,584	1,022	46,606
2009 computer upgrades	-	4,856	4,856
Eagles Nest and Moosehead shades	6,839	5,553	12,392
2008 6-foot tables	-	1,927	1,927
2008 banquet chairs	4,539	-	4,539
2004 John Deere dozer	28,755	-	28,755
Campground truck	1,000	-	1,000
88" Flail mower	4,651	-	4,651
2008 Piston bully 400 groomer	-	1,731	1,731
2006 Piston bully 600 groomer	-	1,731	1,731
Internal access point	-	807	807
Lincoln mig 140 welder	-	679	679
Trail improvement	-	10,238	10,238
Sign landscaping	8,596	-	8,596
2008 lower level remodel	7,289	-	7,289
Moosehead window replacement	724	-	724
Ice cream cabinet	-	1,692	1,692
2002 Bombardier BR275	-	43,000	43,000
2008 upstairs ticket remodel	6,917	-	6,917
2009 Burton Learn to Ride equipment	79,079	-	79,079
Total Construction in Progress	**$ 311,944**	**$ 111,488**	**$ 423,432**

<u>Repair and Replacement Account Summary</u>

Net Assets - restricted for capital improvements at April 30, 2008	**$ 351,609**
2008 repair and replacement account deposits	225,000
Repair and replacement account capital improvements	(311,944)
Net Assets - restricted for capital improvements at April 30, 2009	**$ 264,665**

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Schedule 4

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED APRIL 30, 2009

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

09-1 Internal Control - Segregation of Duties, Documentation, and Monitoring

Management is responsible for establishing and maintaining effective internal control. This includes designing and implementing programs and controls to prevent and detect errors and fraud, ensuring fair presentation of the financial statements and related notes, and monitoring ongoing activities. Adequate segregation of duties and written policies and procedures are key control activities in an organization's accounting system. Monitoring helps to ensure that internal control continues to operate effectively.

The size of Spirit Mountain Recreation Area Authority and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view. Ideally, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. In addition, the work of one individual should be either independent of, or serve to check on, the work of another. Such arrangements reduce the risk of undetected errors and limit opportunities to misappropriate assets or conceal intentional misstatement.

During our review of the Authority's payroll function, we noted an outside payroll service is no longer used to process payroll; it is now being processed by Authority staff. This puts an even greater burden on the Authority, already limited by its small staff size, to prevent and detect errors and irregularities. In addition, access controls currently in the payroll module of the computerized accounting system cannot be limited or restricted for staff that process payroll. Therefore, the Finance Director, who is responsible for processing payroll, also has access to make changes to the employee master file in the computerized payroll module for occurrences such as new hires, terminations, and pay increases. The Human Resources Manager, who is responsible for maintenance of the employee master file, has access to only employee master files and not to the processing components of the computerized payroll module. The Executive Director is responsible for reviewing an extensive number of reports in an effort to mitigate payroll-related internal control weaknesses.

During our review of the Snocross event, a revenue-producing event over which the Authority has accounting responsibilities, we noted there were no written policies and procedures documenting internal controls related to the event. Written policies and procedures enhance employees' understanding of their role and function in the internal control system; establish responsibilities; provide guidance for employees; improve efficiency and consistency of transaction processing; and support management's risk identification, evaluation, and mitigation.

We recommend the Board of Directors be mindful that limited staffing and segregation of duties causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Board of Directors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls. This is especially important in the payroll area.

We recommend written policies and procedures for significant activities, such as the Snocross event, be prepared and that they be approved by the Board of Directors to emphasize their importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures. For all significant functions used to support financial information for the Board, management, and for external financial reporting, the Board should periodically monitor procedures to re-assess risk and determine whether the established internal controls are still effective or if changes are needed. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services provided. The monitoring activity should be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

Spirit Mountain takes implementing strong internal controls seriously. With regard to payroll processing, the Finance Director must have access to all aspects of the payroll system to process payroll and make changes to the employee master file.

There are numerous steps involved in processing the payroll, all of which are in place to ensure proper procedures are followed throughout the process. The department supervisors are required to print their employees' times, review and edit the times and submit a signed timesheet for each employee in their department.

The Executive Director reviews the Time Clock Report that shows each employee's time and compares it to the "Calculate" report. The Human Resources Director and the Executive Director each review the "Calculate" report that is built during the payroll processing which shows each employee being paid as well as his/her hours, rate of pay, department(s), benefits, deductions and taxes.

The Executive Director then reviews and approves the following detailed reports prior to any ACH file being submitted: The Check Register - noting each employee gross-to-net pay as well as their pay check/direct deposit number; Payroll Check Posting Register - noting each employee's pay and the general ledger accounts being posted to; Vacation/Sick Time Accrual Register - noting each employee's available/accrued vacation and any sick time used; Pay Code Posting Journal - noting every single paycode used in alphabetical order from bonuses to vacation for every employee being paid; Department Posting Journal - noting each department's pay period hours as well as pay period dollars; Payroll Deduction Posting Journal/Payroll Benefit Posting Journal - noting each employee's payroll deductions and benefits; State Tax Posting Journal - noting each employee's state tax amounts; Checkbook Posting Journal - noting each payroll check and the amount; Deposit Register - noting each employee's direct deposit amounts to be deposited; the ACH file to be transmitted to be paid - noting it must identically match every report above.

After all of these detailed reports are reviewed and approved by the Executive Director, the ACH file is submitted to the bank and a submittal receipt is received via fax from the bank showing the dollar amount of the file they will pay. This final receipt is then signed by the Executive Director verifying the number identically matches the reports above.

The Executive Director pays especially close attention to the trail for the Finance Director's pay from the time clock hours and rate of pay all the way through the amount being directly deposited. No employees or supervisors are able to modify or approve their own time at Spirit Mountain. Each employee has a supervisor who modifies/approves his/her time. Supervisors' times are modified/approved by the Executive Director.

Based on the recommendations of the State Auditor, ticket sales and reconciliation for Duluth National Snocross now has a written policy which describes the process that has been in place since the inception of the event to ensure internal controls over this function.

09-2 <u>Audit Adjustment</u>

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls. During our audit, we proposed an adjustment of $313,190 to correct depreciation expense.

The proposed audit adjustment was reviewed and approved by the appropriate Authority staff and is reflected in the financial statements. Independent external auditors, however, should not be used as part of the government's internal control.

We recommend the Authority continue its efforts in reducing audit adjustments by establishing review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete.

<u>Client's Response</u>:

All postings to the general ledger are reviewed by the Executive Director after being proposed through a journal voucher by the Finance Director. When two grooming tractors were sold during the fiscal year, the appropriate depreciation adjustment was made at the time of the sale. After the draft April 30, 2009, financial statements were approved by the Board, an additional adjustment was made for the depreciation of the grooming tractors. This was an oversight made by the Finance Director and more careful attention will be made when proposing audit adjustments.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

09-3 Donation to Nonprofit Foundation

The Authority entered into an agreement with the Duluth-Superior Area Community Foundation (Foundation), a non-profit corporation. The agreement requires the Authority to "irrevocably assign, convey, transfer and deliver to the Trustee property set forth in Exhibit A" to the Foundation as trustee of a fund to be known as the "Spirit Mountain Recreation Area Authority Fund" (Fund). The net income and principal of the Fund must be disbursed by the Foundation "exclusively for educational and charitable uses and purposes" according to the Foundation's articles of incorporation and bylaws. Exhibit A to the agreement is blank; except for a sentence indicating "(This page is where the establishing gift to the fund will be listed.)." The Authority donated $5,000 to the Foundation.

Each expenditure of public funds must be authorized by law and for a public purpose. *See e. g.* Minn. Const., art. X, § 1 ("Taxes . . . shall be levied and collected for public purposes."). For this reason, the Minnesota Attorney General's Office has consistently stated that no donations of public funds to people, non-profits, charities, etc., are permitted unless based upon specific statutory or charter authority. *See, e.g.,* Ops. Att'y. Gen.. 59a-3 (Aug. 19, 1947) (no authority to donate to 4-H Clubs), 442a-17 (Jan. 17, 1938) (Red Cross), 59-A-3 (May 21, 1948), and (Sept. 28, 1933) (Boy Scouts). The assumption is that a gift of public funds to an individual or private entity necessarily serves a private rather than a public purpose. *See* Ops. Att'y. Gen.. 107-a-3 (Jan. 22, 1980), 270-D (Aug. 12, 1977), and 59a-22 (Dec. 4, 1934). The Office of the State Auditor knows of no specific statutory or charter authority for this charitable gift.

We recommend that the Authority follow Minnesota law and cease donations to the Foundation, that it recover all money already donated, and terminate the agreement.

<u>Client's Response</u>:

The agreement the Authority entered into with the Duluth-Superior Area Community Foundation is for the purpose of establishing an endowment fund for Spirit Mountain Recreation Area. The fund, when fully endowed, will support ONLY Spirit Mountain Recreation Area Activities. No other entities or organizations will be supported by this fund. The fund has been established to assist activities for youth programming at Spirit Mountain.

While the initial seed money was donated by Spirit Mountain, all the proceeds of the fund as it grows over the years will come back to the Authority. So in reality the initial contribution will be given back to the Authority in time. It is our position that in essence the Foundation is simply holding funds for Spirit Mountain for a future use. These funds will grow more aggressively through the funds investments.

Spirit Mountain entered into this agreement believing it was the same program as that of the City of Duluth Legacy Fund.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and City Council
City of Duluth

Board of Directors
Spirit Mountain Recreation Area Authority

We have audited the basic financial statements of Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, as of and for the year ended April 30, 2009, and have issued our report thereon dated April 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spirit Mountain Recreation Area Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 09-1 and 09-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Spirit Mountain Recreation Area Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 09-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spirit Mountain Recreation Area Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Spirit Mountain Recreation Area Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 09-3.

Spirit Mountain Recreation Area Authority's written responses to the significant deficiency, material weakness, and legal compliance finding identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, Mayor and City Council of Duluth, the Authority's management, and others within Spirit Mountain Recreation Area Authority and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 20, 2010